

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 2008-5-G – ORDER NO. 2008-546  
AUGUST 8, 2008

IN RE:	)	
	)	
Annual Review of Purchased Gas	)	ORDER ON PGA
Adjustment and Gas Purchasing Policies	)	AND ADOPTING
Of South Carolina Electric & Gas Company	)	SETTLEMENT AGREEMENT
_____	)	

This matter comes before the Public Service Commission of South Carolina (“Commission”) for annual review of the Purchased Gas Adjustments and the Gas Purchasing Policies (“PGA”) of South Carolina Electric & Gas Company (“SCE&G” or “the Company”). Order No. 87-898, issued on August 14, 1987, requires these annual reviews. Pursuant to that order, the Commission opened the present docket for the purpose of conducting SCE&G’s 2008 Annual PGA Review. On February 22, 2008, the Commission issued a notice of hearing and set return dates for filing to intervene.

By letter dated February 22, 2008, the Commission instructed the Company to publish a notice in a newspaper of general circulation in the affected areas advising all interested parties of the manner and time in which to file pleadings to obtain the right to participate in this review. The Commission further instructed SCE&G to provide direct notification of the PGA review to each affected customer. The Company filed affidavits to confirm its compliance with the Commission’s instructions.

The South Carolina Office of Regulatory Staff (“ORS”) appeared as a party in this matter pursuant to S.C. Code Section 58-4-10 (Supp. 2007). As the gas utility under review, SCE&G was made a party directly in the notice and appeared by counsel in the proceeding. ORS and SCE&G are hereafter referred to collectively as the “Parties” or sometimes individually as a “Party.” No other parties sought to intervene in this proceeding.

By letter dated February 22, 2008, the Commission’s Docketing Department issued scheduling directions to all Parties establishing the dates for the Parties to pre-file testimony and exhibits in this case.

The period under review in this docket is March 1, 2007 through February 29, 2008 (“Review Period”).

On May 13, 2008, SCE&G pre-filed the direct testimony of witnesses Harry L. Scruggs, Martin K. Phalen, James E. Swan, IV, and Rose Jackson. On May 27, 2008, ORS pre-filed the testimony of witnesses Roy H. Barnette and Carey M. Flynt. On July 1, 2008, the Parties to the proceeding filed a comprehensive Settlement Agreement (the “Settlement Agreement”) wherein they stipulated to a resolution of all issues in the proceeding. The Settlement Agreement includes the settlement testimony of Rose Jackson.

The Commission conducted a formal hearing in this matter on July 8, 2008, beginning at 2:00 p.m. in the office of the Commission, with the Honorable G. O’Neal Hamilton, presiding. K. Chad Burgess, Esquire, Mitchell Willoughby, Esquire, and Belton T. Zeigler, Esquire represented the Company. Shannon Bowyer Hudson, Esquire and Shealy Boland Reibold, Esquire represented ORS.

At the opening of the hearing, Ms. Shannon Bowyer Hudson, counsel for ORS, moved the Settlement Agreement between the Parties into the record along with the pre-filed testimony

and exhibits of all ORS witnesses. Mr. Chad Burgess moved into the record the pre-filed testimony and exhibits of all SCE&G witnesses. The Settlement Agreement adopted the cost of gas calculations for the Review Period as set forth in ORS Audit Exhibit RHB-1, which was attached to the testimony of Roy H. Barnette.

In support of its PGA and Gas Purchasing Policies and the Settlement Agreement and as stipulated in the Settlement Agreement, SCE&G presented direct testimony from Martin K. Phalen, Rose Jackson, James E. Swan, IV, and Harry L. Scruggs. ORS presented direct testimony from Roy H. Barnette. Consistent with the terms of the Settlement Agreement, the witnesses who pre-filed direct testimony in this proceeding and orally presented such testimony before the Commission were subject to questioning by the Commissioners, and not by any party.<sup>1</sup>

Hearing Exhibit 1 is the Settlement Agreement, Hearing Exhibit 2 contains the exhibits of Roy H. Barnette, and Hearing Exhibit 3 contains the composite exhibits of SCE&G witnesses Martin K. Phalen, Rose Jackson and Harry L. Scruggs. In addition, three additional exhibits were requested by the Commission and provided by SCE&G on July 18, 2008 as follows: Hearing Exhibit 4 describing segmentation, Hearing Exhibit 5 describing the average monthly bill of a residential customer who consumed 100 therms of gas during July 2008, and Hearing Exhibit 6 describing the difference in the municipal fee described in Harry Scruggs's direct testimony and in Exhibit HLS-1 to Harry L. Scruggs's direct testimony.

By statute, the Commission is vested with power and jurisdiction to supervise and regulate the rates and service of every public utility in this State, together with the duty, after hearing, to ascertain and fix such just and reasonable standards, classifications, regulations,

---

<sup>1</sup> ORS Witness Carey M. Flynt was unable to appear at the hearing. The Parties stipulated to her direct pre-filed testimony and the Commission entered her testimony into the record of this proceeding.

practices and measurements of service to be furnished, imposed, observed and followed by every public utility in this State. S.C. Code Ann. Section 58-5-210 (1976).

Further, the Settlement Policies and Procedures of the Commission (Revised 6/13/2006) are pertinent to the matter before the Commission and consistent with its statutory duties. Section II of that document (“Consideration of Settlements”) states:

When a settlement is presented to the Commission, the Commission will prescribe procedures appropriate to the nature of the settlement for the Commission’s consideration of the settlement. For example, the Commission may summarily accept settlement of an essentially private dispute that has not significant implications for regulatory law or policy or for other utilities or customers upon the written request of the affected parties. On the other hand, when the settlement presents issues of significant implication for other utilities, customers, or the public interest, the Commission will convene an evidentiary hearing to consider the reasonableness of the settlement and whether acceptance of the settlement is just, fair, and reasonable, in the public interest, or otherwise in accordance with law or regulatory policy. Approval of such settlements shall be based upon substantial evidence in the record.

This case presents issues of significant implication for the utility and the public interest. As such, this Commission convened “an evidentiary hearing to consider the reasonableness of the settlement and whether acceptance of the settlement is just, fair, and reasonable, in the public interest, or otherwise in accordance with law or regulatory policy.” The Commission has considered the testimony and the exhibits of the witnesses and the other evidence of record in this proceeding including the Settlement Agreement. Based on this factual record, the Commission concludes, as the Parties have stipulated, that adoption of the Settlement Agreement is in the best interest of SCE&G's customers, the State of South Carolina, and the financial integrity of the Company.

In making this finding, the Commission specifically finds that during the Review Period, SCE&G: a) properly administered the purchased gas adjustment; b) employed prudent gas purchasing practices and policies; c) administered the Industrial Sales Program-Rider (“ISP-R”) prudently and reasonably and in accordance with the terms of Order No. 2005-619, adopting the Settlement Agreement entered into in Docket No. 2005-113-G, which authorized that program in its current form; d) except as described in the ORS testimony of Roy H. Barnette in this docket, recovered its gas costs consistent with applicable tariffs and Commission orders;<sup>2</sup> e) conducted and administered its hedging program consistent with the authorization granted in Order No. 2006-679; and f) was prepared during the review period and is currently prepared to meet its firm customers’ projected needs via its future supply and capacity asset plans.

The Commission finds, as stipulated by the Parties in the Settlement Agreement, that the demand charges included in the total cost of gas factors should continue to be calculated as set forth in Commission Docket No. 2006-5-G, Order No. 2006-679 by distributing such costs among the rate schedules based upon a 50-50 allocation of peak design day demand and annual forecast sales. The Commission further finds that SCE&G should use the 50-50 allocation of peak design day demand and annual forecast sales for demand charges in any recalculation of total cost of gas factors. The allocation factors contained on page 3 in Mr. Scruggs’s pre-filed direct testimony (Residential 66.84%; Small General Service/Medium General Service 29.95%; Large General Service 3.21%) are appropriate and should be used for cost of gas calculations beginning with the first billing cycle of November 2008.

---

<sup>2</sup> As reported in Witness Barnette’s prefiled testimony, SCE&G inadvertently failed to implement a revised gas tariff filed under its gas cost recovery mechanism for the month of June 2007. The error was not discovered and corrected until after 6 billing cycles had been completed. The error resulted in an underbilling during the month of June 2007 of \$57,174. To adjust for this underbilling, ORS proposes to add the amount of \$57,174 to the Company’s overcollection total. SCE&G agrees to this adjustment.

The Commission further approves the authority of SCE&G to charge and recover carrying costs, if applicable, on the cumulative total over or under-collection balances using the same method and with the same limitations as set forth by the Commission in Docket No. 2006-5-G, Order No. 2006-679 for the same reasons set forth in that Order. Additionally, the Commission finds that the approximately \$10.5 million in credits distributed to gas residential and small/medium general service customer classes from the Prepaid Municipal Fee Account and as further set forth in Docket No. 2007-459-E and Order No. 2008-49 is reasonable.

The Commission finds, as stipulated by the parties, that the Company conducted its hedging program during the Review Period prudently and consistent with the approvals granted in Docket No. 2006-5-G, Order No. 2006-679 and Docket No. 2007-5-G, Order No. 2007-595. The Parties have agreed and stipulated that the hedging program should continue through the next review period with certain modifications:

- a) the percentage of volumes that may be hedged should be reduced from up to 50% to up to 25%;
- b) SCE&G agrees to utilize the dollar cost averaging methodology;
- c) SCE&G will eliminate the Kase ezHedge™ model and any future associated operating and administrative costs with Kase and Company, Inc. for the use of that model once the current contract expires on September 30, 2008;
- d) the Company will reduce the number of forward months on which hedges may be placed to twelve months; and
- e) SCE&G agrees to use call options instead of fixed price instruments where the premium for any call option purchased will be the lesser of or equal to:

- 1) 10% of current market price of natural gas for the month being hedged,
- or 2) the cost of an at-the-money<sup>3</sup> call option for the month being hedged.

The Commission acknowledges and approves of the proposed changes to the hedging program. Additionally, the Commission finds, as stipulated by the parties, that SCE&G should settle its current outstanding hedge positions which expire beyond the twelve month time period described in subsection d) above by taking corresponding offsetting financial positions in the market if the resulting aggregate settlement in total results in a gain. SCE&G should apply this gain to the gas cost over/under collection account used in the cost of gas calculation factor in the month the settlements occur. Further, SCE&G shall continue to report to the ORS and the Commission within 30 days of the close of each month the results of the hedging program for the preceding months along with other information as stipulated in the Settlement Agreement.

Based on the testimony and exhibits and the Settlement Agreement entered into the record, the Commission finds that the Company's gas purchasing policies and practices during the Review Period and as stipulated by the Parties were reasonable and prudent. The Commission further finds that all matters contained in the Settlement Agreement are appropriate for adoption in this proceeding and therefore finds that the Settlement Agreement is in the public interest and is a reasonable resolution of all issues in this case.

---

<sup>3</sup> An option is at-the-money if the strike price is the same as the current price of the underlying security on which the option is written. The strike price is the price the option holder must pay to exercise the option.

NOW THEREFORE, based upon the foregoing, IT IS HEREBY DECLARED AND ORDERED THAT:

1. SCE&G's gas purchasing policies and practices during the Review Period and as stipulated by the Parties were within the guidelines established in prior Commission orders and were reasonable and prudent.

2. With the adjustment described by ORS Witness Barnette, SCE&G recovered its gas costs consistent with applicable tariffs and Commission orders during the Review Period.

3. The appropriate cost of gas calculations for the Review Period are as set forth in ORS Audit Exhibit RHB-1, as attached to the testimony of Roy H. Barnette.

4. The demand charges included in the total cost of gas factors should continue to be calculated as set forth in Commission Docket No. 2006-5-G, Order No. 2006-679 by distributing such costs among the rate schedules based upon a 50-50 allocation of peak design day demand and annual forecast sales. The monthly adjustment procedure and notification procedure for the total cost of gas factors as adopted in Order No. 2006-679 shall be maintained.

5. The allocation factors contained in Mr. Scruggs's pre-filed direct testimony are appropriate and should be used for cost of gas calculations beginning with the first billing cycle of November 2008.

6. SCE&G shall continue to charge and recover carrying costs, if applicable, on the cumulative total over or under collection balances in the same method and with the same limitations as set forth by the Commission in Docket No. 2006-5-G, Order No. 2006-679.

7. The approximately \$10.5 million in credits distributed to gas residential and small/medium general service customer classes from the Prepaid Municipal Fee Account and as further set forth in Docket No. 2007-459-E and Order No. 2008-49 is reasonable.



8. SCE&G has conducted its hedging program during the Review Period prudently and consistent with the approvals granted in Docket No. 2006-5-G, Order No. 2006-679. SCE&G shall continue its hedging program under the terms approved by the Commission in Docket No. 2006-5-G, Order No. 2006-679, with the modifications stipulated by the Parties and as set forth in the Settlement Agreement, until further order of the Commission.

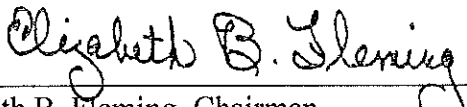
9. SCE&G shall settle its current outstanding hedge positions which expire beyond the twelve month time period as further described in Paragraph 7 (d) of the Settlement Agreement by taking corresponding offsetting financial positions in the market if the resulting aggregate settlement in total results in a gain. SCE&G shall apply this gain to the gas cost over/under collection account used in the cost of gas calculation factor in the month the settlements occur.

10. SCE&G shall continue to report to ORS and the Commission within 30 days of the close of each month the results of the hedging program for the preceding months along with other information as stipulated in the Settlement Agreement.

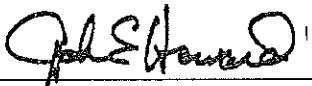
11. The Settlement Agreement attached hereto as Order Exhibit No. 1, which was stipulated to by all Parties and accepted into the record without objection at the hearing, is incorporated into and made a part of this Order. Further, the Settlement Agreement constitutes a reasonable resolution to this proceeding and is hereby adopted as such.

12. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

  
\_\_\_\_\_  
Elizabeth B. Fleming, Chairman

ATTEST:

  
\_\_\_\_\_  
John E. Howard, Vice Chairman

(SEAL)

Docket No. 2008-5-G

Order No. 2008-546

August 8, 2008

**BEFORE**

**THE PUBLIC SERVICE COMMISSION OF**

**SOUTH CAROLINA**

**DOCKET NO. 2008-5-G**

**July 1, 2008**

IN RE:

Annual Review of Purchased  
Gas Adjustment and Gas Purchasing  
Policies of South Carolina Electric &  
Gas Company

SETTLEMENT AGREEMENT

This Settlement Agreement ("Settlement Agreement") is made by and between the South Carolina Office of Regulatory Staff ("ORS") and South Carolina Electric & Gas Company ("SCE&G" or "the Company") (collectively referred to as the "Parties" or sometimes individually as "Party");

WHEREAS, on February 22, 2008, the Public Service Commission of South Carolina (the "Commission") issued the notice of hearing for the 2008 Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies ("PGA") of SCE&G;

WHEREAS, the purpose of this proceeding is to review matters related to SCE&G's gas purchasing practices and policies, administration of its purchased gas adjustment, and the recovery of its gas costs;

WHEREAS, the period under review in this docket is March 1, 2007 to February 29, 2008 ("Review Period");

WHEREAS, ORS has examined the books and records of SCE&G and conducted inquiries and analyses related to the Company's gas purchasing practices and policies, administration of its purchased gas adjustment, and the recovery of its gas costs;

WHEREAS, ORS determined that during the period under review, SCE&G: a) properly administered the purchased gas adjustment; b) employed prudent gas purchasing practices and policies; c) administered the Industrial Sales Program-Rider ("ISP-R") prudently and reasonably and in accordance with the terms of Order No. 2005-619, adopting the Settlement Agreement entered into in Docket No. 2005-113-G, which authorized that program in its current form; d) except as described in the ORS testimony of Roy H. Barnette in this docket, recovered its gas costs consistent with applicable tariffs and Commission orders;<sup>1</sup> e) conducted and administered its hedging program consistent with the authorization granted in Order No. 2006-679; and, f) was prepared during the review period and is currently prepared to meet its firm customers' projected needs via its future supply and capacity asset plans;

WHEREFORE, the Parties have engaged in discussions and in the spirit of compromise, the Parties hereby stipulate and agree to the following terms and conditions:

1) The Parties agree to stipulate into the record before the Commission this Settlement Agreement. The Parties further agree to stipulate into the record the pre-filed direct testimony of James E. Swan, IV, Martin K. Phalen, Rose Jackson, Harry L. Scruggs, Roy H. Barnette, and Carey M. Flynt and the pre-filed settlement testimony of Rose Jackson included herein as Attachment 1 without cross-examination and that each witness will take the stand to present his or her testimony. With respect to this Settlement Agreement, Rose Jackson is the witness designated to be primarily responsible for providing support for the Settlement Agreement.

---

<sup>1</sup> As reported in Witness Barnette's prefiled testimony at page 7, line 14 through page 8, line 3, SCE&G inadvertently failed to implement a revised gas tariff filed under its gas cost recovery mechanism for the month of June 2007. The error was not discovered and corrected until after 6 billing cycles had been completed. The error resulted in an underbilling during the month of June 2007 of \$57,174. To adjust for this underbilling, ORS has added the amount of \$57,174 to the Company's overcollection total. SCE&G has agreed to this adjustment.

2) For the purpose of setting the gas cost recovery factors, the Parties accept the use of ORS's cost of gas calculations for the period March 1, 2007 through February 29, 2008 as set forth in ORS Audit Exhibit RHB-1 attached to the testimony of Roy H. Barnette.

3) The Parties agree to maintain the monthly adjustment procedure and notification procedure for the total cost of gas factors as adopted in Commission Docket No. 2006-5-G, Order No. 2006-679.

4) The Parties acknowledge the demand charges included in the total cost of gas factors will continue to be calculated as set forth in Commission Docket No. 2006-5-G, Order No. 2006-679 by distributing such costs among the rate schedules based upon a 50-50 allocation of peak design day demand and annual forecast sales. SCE&G agrees to use the 50-50 allocation of peak design day demand and annual forecast sales for demand charges in any recalculation of total cost of gas factors under this Settlement Agreement. The Parties agree that the allocation factors contained on page 3 in Mr. Scruggs's pre-filed direct testimony (Residential 66.84%; SGS/MGS 29.95%; LGS 3.21%) are appropriate and should be used for cost of gas calculations beginning with the first billing cycle of November 2008.

5) As part of this Settlement Agreement, the Parties agree that SCE&G shall continue to charge and recover carrying costs, if applicable, on the cumulative total over- or under-collection balances in the same method and with the same limitations as set forth in Commission Docket No. 2006-5-G, Order No. 2006-679.

6) The Parties agree with the approximately \$10.5 million in credits distributed to gas residential and small/medium general service customer classes from the Prepaid Municipal Fee Account. Discussion of the Prepaid Municipal Fee Account is set forth in Docket No. 2007-459-E and Order No. 2008-49 as well as the testimony of James E. Swan, IV in this docket.

7) The Parties agree that the hedging program and methodologies approved by Commission Order No. 2006-679 in Docket No. 2006-5-G were conducted and administered

during the Review Period consistent with Order No. 2006-679.<sup>2</sup> The Parties also agree that SCE&G's approved hedging program is to continue through the next review period with the following modifications:

- a) Reduce the percentage of volumes that may be hedged from up to 50% to up to 25%;
- b) Utilize the dollar cost averaging methodology;
- c) Eliminate the Kase ezHedge™ model and any future associated operating and administrative costs with Kase and Company, Inc. for the use of that model once the current contract expires on September 30, 2008;
- d) Reduce the number of forward months on which hedges may be placed to twelve months;
- e) Use call options instead of fixed price instruments where the premium for any call option purchased will be the lesser of or equal to: 1) 10% of current market price of natural gas for the month being hedged, or 2) the cost of an at-the-money<sup>3</sup> call option for the month being hedged; and,
- f) Settle its current outstanding hedge positions which expire beyond the twelve month time period described in subsection d) above by taking corresponding offsetting financial positions in the market if the resulting aggregate settlement in total results in a gain and apply this gain to the gas cost over/under collection account used in the cost of gas calculation factor in the month the settlements occur.

---

<sup>2</sup> By way of Order No. 2007-595, dated September 6, 2007, in Docket No. 2007-5-G, the Commission approved the continued use of the authorized hedging program and methodologies.

<sup>3</sup> An option is at-the-money if the strike price is the same as the current price of the underlying security on which the option is written. The strike price is the price the option holder must pay to exercise the option.

SCE&G agrees to continue reporting to the Commission and ORS within 30 days following the close of each month the results of the hedging program for the preceding month, which report shall include the hedging transactions closed-out during the month, the additions to or subtractions from the cost of gas resulting from closed-out contracts, the costs of operating the program during the month, and a list of open transactions as of the last day of the month for each succeeding month.

The Parties further agree that SCE&G's hedging program shall continue to be operated independent of and shall be accounted for separate from its purchase of physical gas supply.

8) ORS is charged by law with the duty to represent the public interest of South Carolina pursuant to S.C. Code § 58-4-10(B). S.C. Code § 58-4-10(B)(1) through (3) reads in part as follows:

... 'public interest' means a balancing of the following:

- (1) concerns of the using and consuming public with respect to public utility services, regardless of the class of customer;
- (2) economic development and job attraction and retention in South Carolina; and
- (3) preservation of the financial integrity of the State's public utilities and continued investment in and maintenance of utility facilities so as to provide reliable and high quality utility services.

ORS believes this Settlement Agreement reached among the Parties serves the public interest as defined above.

9) The Parties agree to advocate that the Commission accept and approve this Settlement Agreement in its entirety as a fair, reasonable and full resolution of all issues in the above-captioned proceeding and to take no action inconsistent with its adoption by the Commission. The Parties further agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission. The Parties agree to use reasonable efforts to defend and support any

Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

10) The Parties agree that signing this Settlement Agreement will not constrain, inhibit, impair, or prejudice their arguments or positions held in other collateral proceedings, nor will it constitute a precedent or evidence of acceptable practice in future proceedings. If the Commission declines to approve the Settlement Agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty or obligation.

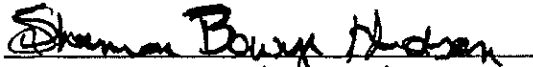
11) This Settlement Agreement shall be interpreted according to South Carolina law.

12) The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement by affixing its signature or by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any Party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement. The Parties agree that in the event any Party should fail to indicate its consent to this Settlement Agreement and the terms contained herein, then this Settlement Agreement shall be null and void and will not be binding on any Party.



WE AGREE:

**Representing the South Carolina Office of Regulatory Staff**



Shannon Bowyer Hudson, Esquire

Shealy Boland Reibold, Esquire

**South Carolina Office of Regulatory Staff**

Post Office Box 11263

1441 Main Street (Suite 300)

Columbia, SC 29211

Phone: (803) 737-0889/737-0863

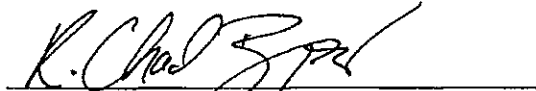
Fax: (803) 737-0895

Email: [shudson@regstaff.sc.gov](mailto:shudson@regstaff.sc.gov)

[sreibol@regstaff.sc.gov](mailto:sreibol@regstaff.sc.gov)

WE AGREE:

**Representing South Carolina Electric & Gas Company**



Catherine D. Taylor, Esquire

K. Chad Burgess, Esquire

**South Carolina Electric & Gas Company**

1426 Main Street, Mail Code 130

Columbia, South Carolina 29201

Phone: (803) 217-8141

Fax: (803) 217-7931

Email: cdtaylor@scana.com

chad.burgess@scana.com

Belton T. Zeigler, Esquire

**Pope Zeigler, LLC**

1411 Gervais St.

Post Office Box 11509

Columbia, South Carolina, 29211

Phone: (803) 354-4949

Fax: (803) 354-4898

Email: bzeigler@popezeigler.com

Mitchell Willoughby, Esquire

**Willoughby & Hofer, P.A.**

Post Office Box 8416

930 Richland Street

Columbia, SC 29202-8416

Phone: (803) 252-3300

Fax: (803) 256-8062

Email: mwilloughby@willoughbyhofer.com

1                                   **SETTLEMENT TESTIMONY OF**  
2                                   **ROSE JACKSON**  
3                                   **ON BEHALF OF**  
4                                   **SOUTH CAROLINA ELECTRIC & GAS COMPANY**  
5                                   **DOCKET NO. 2008-5-G**  
6

7   **Q.    ARE YOU THE SAME ROSE JACKSON THAT HAS PREFILED DIRECT**  
8           **TESTIMONY IN THIS CASE?**

9   **A.    Yes, I am.**

10 **Q.    WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY?**

11 **A.    In this settlement testimony, I discuss and support the settlement agreement (the**  
12           **"Settlement"), entered into by the parties in this proceeding on July 1, 2008. Specifically,**  
13           **I explain the terms of the Settlement as they relate to SCE&G's gas purchasing practices**  
14           **and discuss administration of the hedging program for the period under review.**

15 **Q.    PLEASE PROVIDE AN OVERVIEW OF THE SETTLEMENT WITH RESPECT**  
16           **TO THE COST OF GAS.**

17 **A.    For the period under review, March 1, 2007 through February 29, 2008, the parties**  
18           **agreed that SCE&G properly administered the purchased gas adjustment, employed**  
19           **prudent gas purchasing practices and policies, administered the Industrial Sales program-**  
20           **Rider prudently and reasonably, recovered its gas costs appropriately except for the**  
21           **approximately \$57,000 discussed in Roy Barnette's testimony, and was and is prepared to**  
22           **meet the firm demand of its customers. For the purpose of setting the gas cost recovery**  
23           **factors, SCE&G accepts ORS's cost of gas calculations and the Parties agree to maintain**  
24           **the monthly adjustment and notification procedure for the total cost of gas factors as**  
25           **previously adopted by the Commission. SCE&G Witness Harry Scruggs discusses in his**  
26           **testimony and SCE&G and ORS have acknowledged that the calculation of the demand**

charges included in the cost of gas factors will continue to be distributed among the rate schedules based upon a 50-50 allocation of peak design day demand and annual forecast sales. Further, the Parties agree that the allocation factors as contained in Mr. Scrugg's pre-filed direct testimony are appropriate and should be used for cost of gas calculations beginning with the first billing cycle of November 2008. SCE&G has also agreed to continue to charge and recover carrying costs in accordance with Commission Order No. 2006-679. Finally, ORS and SCE&G agree with the approximately \$10.5 million in credits distributed to gas residential and small/medium general service customer classes from the Prepaid Municipal Fee Account and as discussed in Docket No. 2007-459-E and Order No. 2008-49.

**Q. PLEASE EXPLAIN THE SETTLEMENT AGREEMENT WITH RESPECT TO THE HEDGING PROGRAM.**

A. The Parties agree that, during the Review Period, the hedging program was conducted and administered consistent with Order No. 2006-679. The Parties have further agreed that the hedging program should continue through the next review period with certain modifications, which are subject to Commission approval.

**Q. WHAT MODIFICATIONS TO THE HEDGING PROGRAM ARE SCE&G AND ORS PROPOSING IN THIS PROCEEDING?**

A. First, the Parties have agreed to reduce the percentage of natural gas volumes which may be hedged from the current level of up to 50% down to a maximum of up to 25% of projected purchases. Second, SCE&G currently uses the Kase ezHedge™ model as well as the dollar cost averaging methodology. The Parties propose that SCE&G eliminate the use of the Kase ezHedge™ model and utilize only the dollar cost averaging methodology

on a going forward basis. Once the current contract with Kase and Company, Inc. expires, SCE&G agrees to eliminate any future associated operating and administrative costs related to the Kase ezHedge™ model.

**Q. HAVE THE PARTIES AGREED TO ANY CHANGES WITH RESPECT TO THE FINANCIAL INSTRUMENTS USED IN THE HEDGING PROGRAM?**

**A.** Yes, we have. SCE&G currently operates its hedging program using fixed price instruments. The Parties have agreed to modify the program to exclude the use of fixed price instruments and, alternatively, to use call options where the premium for any call option purchased will be the lesser of or equal to: 1) 10% of the current market price of natural gas for the month being hedged, or 2) the cost of an at-the-money call option for the month being hedged. This modification will reduce the exposure to hedging losses and gains in any one year. Additionally, the Parties have agreed that the program should be modified such that the number of forward months for which the Company may place hedges is reduced to twelve months.

**Q. DO THE PARTIES HAVE ANY RECOMMENDATIONS REGARDING THOSE OUTSTANDING HEDGE POSITIONS WHICH ARE SCHEDULED TO EXPIRE BEYOND TWELVE MONTHS?**

**A.** Yes. The Parties have agreed to recommend to the Commission that SCE&G be allowed to settle outstanding hedge positions which are scheduled to expire beyond twelve months by taking corresponding offsetting financial positions in the market, if and only if the resulting aggregate settlement in total results in a gain from the settlements. SCE&G will continue to maintain the original financial positions through their respective expiration dates; however, by settling these positions, SCE&G will establish and "lock

1 in" any aggregate gains in the market on that date. SCE&G will not realize any monetary  
2 gain until the dates of expiration of the applicable hedges; however, SCE&G will be able  
3 to apply the aggregate gain to the gas cost over/under collection account used in the cost  
4 of gas calculation factor in the month the settlements occur. If the Commission approves  
5 this request, then the Company would expect to complete the necessary transactions  
6 within a reasonable time following its receipt of an Order authorizing the settlements of  
7 these outstanding hedges.

8 **Q. HAVE THE PARTIES AGREED TO CONTINUE THE OTHER**  
9 **REQUIREMENTS AS PREVIOUSLY SET FORTH BY THE COMMISSION?**

10 **A.** Yes, SCE&G has agreed to continue reporting to the Commission and ORS within 30  
11 days following the close of each month the results of the hedging program for the  
12 preceding month. Additionally, the Parties have agreed that the hedging program shall  
13 continue to be maintained independent of and shall be accounted for separately from its  
14 purchase of physical gas supply.

15 **Q. WITH REGARD TO THE SETTLEMENT AGREEMENT, WHAT REQUEST**  
16 **DOES THE COMPANY MAKE OF THE COMMISSION?**

17 **A.** The Company respectfully requests that the Commission approve the Settlement  
18 Agreement entered by the parties in this proceeding and the findings, terms and  
19 conditions contained therein.

20 **Q. DOES THIS CONCLUDE YOUR SETTLEMENT TESTIMONY?**

21 **A.** Yes.